

Are Tax-Exempts Robber Barons?

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WASHINGTON — Are tax-exempt foundations descendants of the robber barons, monopolizers of the marketplace of ideas?

Or are they reservoirs of free capital available for social purposes that embody the American tradition of shared responsibility and voluntary giving?

Such are the poles-apart assessments made of the mushrooming impact — social, economic and otherwise — that private foundations have on American life.

Recent disclosures that the Central Intelligence Agency used certain foundations as financial conduits prompted an examination of these organizations, which have proliferated in recent years to now number at least 17,000.

Except for the behemoths among them, such as the Ford and Rockefeller Foundations, they dispense with little notice millions of dollars annually to fund a wide range of activity.

Clearly, a number of foundations operate as tax dodges, and there has been mounting criticism of such operations. There is criticism, too, of other, more subtle impacts foundations have on American life.

But equally clearly America has benefited from the work of foundations. Work has been done for the public good that otherwise would not have been done.

Thousands of contributions a year pass relatively unheralded, except, perhaps, for mention in newspapers cover-

ing localities where recipients operate.

Despite their relative obscurity, the foundations generate controversy, chiefly over their tax-exemptions. Under the law, the foundation's income is not taxed and its supporters can deduct donations from their taxes.

Government officials from President Johnson on down are concerned about misuse of these privileges.

Last month in his annual economic message, Johnson said he will urge changes to deal with such abuses.

The foundations' harshest critic in government is that veteran populist Rep. Wright Patman (D., Tex.). He regards the exemptions as massive loopholes, unmerited by the foundations' service to society.

It is Patman who called the private foundation "a holdover from the conscience-stricken moments of the robber barons at the turn of the century."

For his small business subcommittee, Patman studied the financial activities of more than 500 foundations from 1951 through 1964. He turned up some glaring examples of potential tax abuse.

To Patman, his studies showed that the Internal Revenue Service had been woefully lax in enforcing existing safeguards against foundation tax abuse; that foundations had piled up unreasonable amounts of money, giving them too much economic power and imperiling small business.

He called in vain for a

moratorium on granting new tax exemptions to foundations and proposed a package of sweeping limitations, such as limiting foundations to a 25-year life.

But Patman credited his reports with prompting the Treasury Department to crack down on seven of the 575 foundations he reviewed, assessing them \$28 million in taxes.

His attack also helped prod the House Ways and Means and Senate Finance Committees to ask that the Treasury conduct a study of its own.

The Treasury investigation, completed two years ago, concluded that "the pre-

ponderant number of private foundations perform their functions without tax abuse."

But the Treasury also uncovered "evidence of serious faults among a minority" of foundations and classified the major shortcomings in six categories.

These included, for example, "self-dealing" between the donors and their tax-exempt foundations which took such forms as renting property to or from the organizations.

As a remedy, the Treasury advanced proposals of its own. It would tackle the problem of foundation involvement in business, for

example, by limiting foundation ownership of a business to 25 per cent. Of the 1,300 foundations surveyed, 109 reported they owned 20 per cent or more of at least one class of stock of a corporation.

The Treasury proposals drew chilly responses from Patman, who regards them as too soft, and from most foundations, who view them as destructive.

No hearings are likely on the proposals until July at the earliest because of the Ways and Means Committee's jammed calendar. Some Capitol Hill sources believe a special message from President Johnson will be needed to spark any concerted effort.